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HOG PRODUCERS HIT PANIC BUTTON

Say it isn't so! How can 1998 be happening again? Wasn't 1998 supposed to be a once in a lifetime event? How can hog producers get through this one? Is this the end of the line for the independent hog producer?

Panic attack is the only way to describe the past two weeks in the hog market. Those producers who survived 1998 have been determined to not have it happen again. Nearly everyone thought that the worst of the financial crunch would not come until this fall, providing time to move animals to market by late summer. However, a much more aggressive liquidation of sows, advanced marketing of market hogs, and drought which sent feed prices unacceptably higher, have set the panic in motion.

Prices were low in early August and conditions grew worse. Terminal hog prices started the month in the mid-$30s and ended the month in the $15 to $18 range per live hundredweight. However, terminal prices are not currently reflecting base values producers are receiving at packers. The national base price for 51%-52% lean animals on a liveweight equivalent basis ended the month at about $27. The range of price quotes by market and type of contractual arrangement has been extreme. On August 28, for example, Midwest hog purchase base prices were quoted from $24 to $37 per live hundredweight, with a weighted average of $28. The lowest prices were for hogs without contracts, where the producer negotiates the price of each load with the packer. The highest prices were for those in a category known as "other purchase agreements," which is a non-formula agreement. In general, values of formula hogs were in the $27 to $32 range on a liveweight equivalent.

Supplies of hogs surged in July and August, increasing by about 7 percent over the same period last year. USDA inventory estimates suggested about 2 percent more hogs for this time period. So how can the additional 5 percent greater supplies be explained? First, sows began to flood to market. For the two months, sow slaughter was up about 20 percent over the slaughter during the same period last year. Secondly, the increases in Canadian live hog imports accounted for nearly one percent additional slaughter. These two factors combined account for about 2 percent of the unexplained 5 percent greater slaughter. A third factor is advanced marketings of market hogs. By the last-half of August, producers pressed the panic button and began selling market hogs at lighter weights. At the start of August, weights were running nearly one percent higher than weights during the same period last year, but by the last week of August they were down fractionally. All these factors still do not fully account for the large number of hogs. USDA may still have underestimated hog numbers by about 2 percent in their June inventory.

The demand problems for pork have been negative as well. The trade restrictions on broiler exports to Russia, the slowly recovering U.S. economy, a 5 percent decrease in pork exports with a 17 percent increase in imports for this year, and large supplies of competitive meats have left cold storage pork stocks currently up 40 percent.

The best news for the industry is that sows are being liquidated fairly rapidly. Sows not bred in August, will not have pigs in December, and pigs will not reach market in June of 2003. The bad news is that we are still 9 months away from seeing the impact of sow liquidation on smaller pork supplies. Heavy sow slaughter can be expected through much of the fall. Producers will also continue to market lighter weight pigs. In the short-run, these will keep pressure on the already depressed markets. The USDA's September *Hogs and Pigs* report, to be released on September 27, will likely show a breeding herd not much changed from last year, with the market herd up about 3 percent. This will not be sufficient to turn prices higher. So it appears that fall prices are set for a continuation of the current rugged period. It appears that 51 to 52 percent lean hog prices, on a live equivalent, will be in the $26 to $28 range. Prices may improve to $28 to $31 for the winter and to near the mid-$30s for the spring. By summer, prices could be back into the low $40s, with mid-to-higher $40s in late summer and into the fall of 2003.
Cost on the other hand will be near $40. This means that losses could average about $13 per live hundredweight, or $34 per head, this fall. Losses would be somewhat less in the winter and only about $5 per hundredweight in the spring. In comparison, estimated losses during the fourth quarter of 1998 were $45 per head.

This is the end of the line for the few truly independent producers that were left. The financial risks of not being aligned in some way in the pork marketing chain are just too extreme. While many families and hog corporations will not get through this period of low prices, those who stick with it, or counter cyclical investors who buy at the bottom, can expect handsome returns in late 2003 and 2004.

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